

The United States Senate  
Committee on Commerce, Science and Transportation  
Subcommittee on Consumer Affairs, Foreign Commerce and Tourism

**STATEMENT OF ALFRED HARRISON**

Vice Chairman, Alliance Capital Management

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Good morning Mr. Chairman and Members of the Subcommittee, and thank you for the opportunity to appear here today to discuss events related to Enron Corporation ("Enron").

My name is Alfred Harrison and I am the Vice Chairman of Alliance Capital Management ("Alliance Capital"). I also lead the large capitalization growth team at Alliance Capital with over \$50 billion in total assets under management.

For seventeen years, I have been the portfolio manager with ultimate responsibility for managing the account of the Florida State Board of Administration ("SBA"), the state agency charged with responsibility for managing Florida's public pension fund. During the 17 years that I managed the SBA portfolio, we grew the account from \$344 million in contributions to more than \$3.6 billion in assets -- a total return of approximately 1,500% versus comparative returns for the S & P 500 Index of 978%, the Russell 1000 Growth Index of 863% and the benchmark selected by Florida itself of 843% -- even allowing for the approximately \$280 million loss on Enron and all fees paid to Alliance Capital by the SBA.

This means that Alliance Capital achieved a return for the SBA account of more than \$1 billion more than would have been achieved by investing in any index benchmark during that period. I believe the pensioners of Florida should be very pleased with this result.

Our investment philosophy, which has been consistently applied, involves finding the correct

marriage between Fundamentals as they relate to each company – which is a product of intensive research – and then applying a Price judgment in relation to the facts we ascertain. We call this the “V factor”.

Enron appeared to have many of the qualities we look for in a growth stock. For example, when I originally invested in Enron in November 2000, it was the seventh largest U.S. company, with a dominant market position in the newly deregulated area of gas and electricity distribution and trading. It had reported annual earnings growth of 25%-35%. Enron’s management had been widely heralded as among the brightest and most visionary management teams in the world.

Although market opinion is never unanimous about a company's business and prospects, Enron, because of its dominant position, was widely held by institutional investors, including many of the largest fund managers in the country. That notwithstanding, some have criticized my additional purchases of Enron stock in the months before Enron’s bankruptcy. Overall, a little over 10% of my dollar investment in Enron on behalf of the SBA took place in October and November of 2001 before Enron declared bankruptcy.

A key element of our “V” factor” investment philosophy is to opportunistically add to a position in a stock that is declining in price if the company’s core earnings power is projected to remain intact. This philosophy is clearly stated in the investment advisory agreement between Alliance Capital and the SBA, and has worked with enormous success for the SBA and many other clients over the years.

When Enron’s stock came under price pressure but its fundamental business appeared to remain intact, the stock appeared to be attractive consistent with the “V” philosophy. That is, Alliance Capital’s purchases were based on the belief that the magnitude of the adverse developments was more

than discounted in the stock price and that Enron's assets and long-term earnings power were undervalued. Again, this is a time-tested investment strategy that Alliance has applied consistently over the last two decades to achieve the outstanding results it has for the SBA and its other clients.

I have been asked how I viewed the August 14, 2001 resignation of Enron's then-CEO Jeffrey Skilling. At the time, we viewed Kenneth Lay's return as CEO to be a positive development given his promise of openness and a commitment that Enron would shed non-core assets and focus upon its core business lines. Upon learning of Skilling's departure, I and my colleagues immediately arranged for a meeting with Lay, which was held in Alliance Capital's Minneapolis offices on August 21, 2001. At that meeting, we had a very detailed discussion about Enron's business, and our questions appeared to have been answered in a complete and satisfactory manner.

On October 16, 2001 Enron reported its third-quarter results and a surprising \$1.2 billion reduction in shareholder equity. The very next day, I and my colleagues, including a number of portfolio managers, our equity analyst, our fixed income analysts and our oil analyst, met in New York with Ken Lay, COO Greg Whalley, Treasurer Jeff McMahon, Executive Vice President Mark Koenig and Paula Rieker, from Investor Relations. The Enron group represented to us that the reduction of shareholder equity was offset by Enron's buyback of stock pledged to a partnership, and that the write-off was equivalent to the company's repurchasing the shares in the open market. Enron's management insisted it had completely unwound its relationship with the partnership and that everything was now out in the open. As we now know, these and other representations were patently false. Even with the few special purpose entities that did come to light, crucial facts were withheld about the structure and insider relationships with Enron management.

Based in part on the false reassurances directly from the most senior levels of Enron management, in the four weeks following October 16, Alliance Capital added to the SBA's Enron position.

Some of these additional purchases were made shortly after November 9, when Dynegy, with a \$1.5 billion dollars cash commitment from ChevronTexaco, announced its intention to merge with Enron. Based on the fixed exchange rate stipulated in the proposed merger agreement between Dynegy and Enron, Enron was trading at a large discount to its indicated exchange value. Moreover, we saw the new combined entity as offering strong appreciation potential. Before investing, Alliance Capital discussed the proposed deal with Dynegy management in the week following the merger announcement. We met with Dynegy management in New York, Chicago and Minneapolis. Dynegy stated that it was confident that the merger would be completed. Specifically, Dynegy's management stated that, based on their due diligence and their extensive experience in the business, Enron's books appeared to be in order and confirmed that Enron's core energy business was very strong. Market analysts around the country also generally believed that the deal would close, and that the deal presented a strong upside for Enron shareholders. Again, consistent with the "V" philosophy, I added to the Enron position around \$9 per share.

Alliance Capital's research was critical to all these decisions. Typically, I select stocks for investment using judgment, experience, and research by our analysts and my team of portfolio managers. In the case of Enron, that research included many meetings and calls with Enron's senior management. It included a review of Enron's public filings, audited financial statements and press releases. It included detailed discussions with Enron's suppliers, customers and competitors. It

included following Enron's credit ratings, discussing Enron with the credit rating agencies, following energy industry developments, attending major industry conferences, utilizing the expertise of sell-side analysts that followed Enron, and analyzing Enron's apparent debt load.

In my experience, one of the most crucial aspects of Alliance Capital's research and evaluation process is speaking with a company's management team. The last year's events notwithstanding, I have found that management almost invariably provides an accurate picture of the company's business. They are of course obligated by law to do so. Unfortunately with Enron, this was not the case. As I have said, I and other portfolio managers and analysts on the Alliance Capital team met and spoke with Enron management repeatedly throughout 2001, and their answers to our questions were false and misleading in significant respects.

We now know, of course, that Alliance Capital was not the only investment advisor or investor misled by Enron. Based upon published reports, it appears that the SBA lost as much as \$50 million as a result of other investment advisers' investments in Enron, or in index funds managed by the SBA itself. Many thousands of other investors suffered losses in Enron, ranging from a few dollars to well over \$150 million dollars. Indeed, it has been reported that apart from the SBA, five state pension funds each lost at least \$100 million in Enron. (Alliance Capital did not make those Enron investments).

And while we never rely uncritically on the opinions of sell-side analysts affiliated with other firms, often the substance of the information they convey, as well as their opinions, are helpful to our analysis. It is interesting to note that throughout October and November 2001, many sell-side analysts continued to rate Enron a buy or strong buy. Goldman Sachs, J.P. Morgan, Lehman Brothers, Salomon Smith Barney, UBS Warburg, Merrill Lynch, CIBC Oppenheimer and CS First Boston were

among the major firms that continued to recommend Enron as an attractive stock. We consulted a number of these institutions whose analysis of Enron appears to have been wrong-footed by Enron's misinformation.

Alliance Capital also consulted Standard & Poor's regarding its credit ratings of Enron. Credit rating agencies can serve as a significant source of information about a company, as the agencies enjoy unrivalled access to a company's books and records under the securities laws that investment advisers such as Alliance Capital do not have. Unfortunately, Standard & Poor's has publicly confirmed that, despite its privileged position, it too was deliberately misled by Enron.

I have managed money for institutional and private investors for forty years, and I have always taken my responsibilities very seriously. Part of this responsibility involves exercising judgment in selecting stocks for my clients. In the case of Enron, that judgment was impaired by false and misleading information from Enron and its auditors Arthur Andersen. The truth is, Enron may be the single largest, most far-reaching episode of corporate fraud of this century, and a great number of portfolio managers around the country were likely misled, just as Alliance Capital was.

Finally, I want to address a question that has been raised concerning Frank Savage, who served on the board of Alliance Capital's general partner and who, until the end of July 2001, was an Alliance Capital employee. Let me say emphatically that I have never discussed Enron with Mr. Savage, and he played no part with my Enron decisions.

I welcome any questions the Subcommittee may have regarding these matters.